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Inside Tim Cook's Secret \$275 Billion Deal with Chinese Authorities

Interviews and internal Apple documents provide a behind-the-scenes look at how the company made concessions to Beijing and won key legal exemptions.

CEO Tim Cook personally lobbied officials over threats that would have hobbled its devices and services. His interventions paved the way for Apple's unparalleled success in the country.



Apple CEO Tim Cook. Photo collage by Haejin Park. Photos by Bloomberg



By Wayne Ma

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Apple's iPhone recently became the top-selling smartphone in China, its second-biggest market after the U.S., for the first time in six years. But the company owes much of that success to CEO Tim Cook, who laid the foundation years ago by secretly signing an agreement, estimated to be worth more than \$275 billion, with Chinese officials promising Apple would do its part to develop China's economy and technological prowess through investments, business deals and worker training.

Cook forged the five-year agreement, which hasn't been previously reported, during the first of a series of in-person visits he made to the country in 2016 to quash a sudden burst of regulatory actions against Apple's business, according to internal Apple documents viewed by The Information. Before the meetings, Apple executives were scrambling to salvage the company's relationship with Chinese officials, who believed the company wasn't contributing enough to the local economy, the documents show. Amid the government crackdown and the bad publicity that accompanied it, iPhone sales plummeted.

THE TAKEAWAY

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Throughout that pivotal year, Cook, who was the architect of Apple's supply chain in China, personally lobbied officials over threats that would have hobbled the company's devices and services, including Apple Pay, iCloud and the App Store, the documents show. He often succeeded, and his previously unreported interventions, along with the multibillion-dollar agreement he signed with a powerful Chinese government agency, paved the way for Apple's unparalleled success in the country. The revelations also suggest Apple's dependence on Cook for government affairs could present risks down the road if he were to step down as CEO.

Many of Apple's dealings with the Chinese government have been hidden from view because of the authoritarian regime's opaque nature and the company's penchant for secrecy. Interviews with people familiar with Apple's interactions with Chinese officials, as well as a review of the internal Apple documents, provide an unprecedented behind-the-scenes look at how the world's most valuable company navigated its complex government relationships, made concessions to Beijing and won key legal exemptions from Chinese regulators who had turned hostile five years ago.

Apple's experience also offers lessons for other foreign companies entering China—including Tesla, which **has encountered challenges with regulators** on multiple fronts as its sales boom in the country, similar to what Apple went through in 2016.

Apple's choice to keep its China agreement confidential was politically savvy, said Victor Shih, a political economist who researches elite politics and the Chinese financial system at the University of California, San Diego. "Apple as a global company needs to appease the Chinese government because China is a large market and a large production base for Apple. But at the same time, the vast majority of its consumers are still located outside of China—especially the ones who have the buying power to buy Apple products—and their opinion of China has increasingly turned negative," he said. "Apple likely wanted to avoid the optics of groveling to the Chinese government."

The cornerstone of Cook's strategy was a memorandum of understanding between Apple and the National Development and Reform Commission, China's powerful economic planning agency. The 1,250-word agreement was originally conceived by Apple's government affairs team in China as a way to improve relations with Beijing and win an audience with senior leaders, according to a person familiar with the agreement. Face-to-face meetings with top Chinese officials became a priority for Apple brass after regulators shut down iTunes books and movies in April 2016, the person said.

To mollify authorities, Cook in May announced an unprecedented \$1 billion investment in Didi Global, then China's most valuable startup, giving Didi an edge in its grueling ride-hailing war against U.S.-based Uber.

Five days later in Beijing, Cook, along with Chief Operating Officer Jeff Williams and government affairs head Lisa Jackson, met publicly with senior government officials at the country's secretive leadership compound, Zhongnanhai. Neither side disclosed details of the visit, but they were there in part to sign the economic deal, which committed Apple to aiding roughly a dozen causes favored by China. They included a pledge to help Chinese manufacturers develop "the most advanced manufacturing technologies" and "support the training of high-quality Chinese talents."



Apple's Tim Cook, Jeff Williams and Lisa Jackson at Zhongnanhai in 2016. Photo: China state media

In addition, Apple promised to use more components from Chinese suppliers in its devices, sign deals with Chinese software firms, collaborate on technology with Chinese universities and directly invest in Chinese tech companies—akin to the Didi investment. Apple promised to invest “many billions of dollars more” than what the company was already spending annually in China. Some of that money would go toward building new retail stores, research and development centers and renewable energy projects, the agreement said.

According to separate internal documents, Apple’s China pledge would amount to more than \$275 billion in spending over five years. The agreement said the deal would automatically extend for an additional year, through May 2022, if neither side had objections in the future. The Chinese embassy in Washington didn’t respond to a request for comment.

‘Grow Together’

Apple’s promises coincided with China’s just-released 13th Five-Year Plan, an economic blueprint issued every five years to mobilize the country to reach new economic and industrial targets. Apple pledged that as part of the agreement, it would “grow together with Chinese enterprises to achieve mutual benefits and a win-win situation,” promote science and technology, education and environmental protection, and help develop China’s information technology industries.

Apple also made a commitment to “strictly abide by Chinese laws and regulations,” a phrase it would later repeat when publicly responding to criticism over censorship and privacy issues related to China. Although both parties signed the agreement, the Chinese government offered almost nothing concrete in return except that it was willing to provide Apple with “necessary support and assistance.”

Such agreements between U.S. companies and Chinese authorities are usually publicly disclosed as part of elaborate

signing ceremonies during high-profile visits by company executives to China. Sometimes the deals simply reflect what the companies had already been planning to do in China. Microsoft signed similar agreements with the Chinese government in **2002** and **2006**, the latter of which included a commitment to spend \$3.7 billion in China over five years on manufacturing. When senior Cisco Systems executives visited Beijing in 2015, the company **signed** an agreement with the Chinese government promising to invest \$10 billion over “several years” in broad areas such as equity investments and R&D.

These agreements are technically nonbinding, but Chinese officials take them more seriously than officials in other countries do, said Dan Harris, an international attorney at law firm Harris Bricken who writes about Chinese law. “They are more binding than you would think,” he said. Foreign companies generally hope that if they sign these agreements, authorities will treat them better, he said.

The deal helped Apple rejuvenate its tattered ties with the Chinese government, the documents show. Officials felt that Apple had grown too arrogant in its dealings with them and neglectful of its obligations to China when compared with other foreign firms such as Microsoft and Intel. Unlike Apple, those firms had invested heavily in R&D facilities and joint ventures in the country.

While the benefits of the Apple-China agreement weren't immediately tangible, Cook received a personal invitation from China's No. 2 official, Premier Li Keqiang, to meet in the southern city of Shenzhen later that year. The invitation strengthened Apple's negotiating power with Chinese regulators, according to internal documents and a person familiar with the visit.

What's more, China still hasn't retaliated against Apple even though U.S. sanctions in recent years have effectively killed the smartphone business of Huawei, China's flagship telecom company. Apple has been one of the biggest beneficiaries of Huawei's pain.

Bigger Islands

Apple has a long history of making concessions to Chinese regulators—and sometimes winning concessions from them too. For example, Apple for years delayed releasing new iPhones in China because it worried about leaks from government-run labs that test and approve the devices before they go on sale in the country. But in 2013, Apple convinced regulators to grant it special dispensation: The testing would be conducted inside Apple's own facilities. Starting with the iPhone 5S, Apple agreed to make its phones available in China on the same day as in the rest of the world, internal documents show.

Within a few years, Apple's sales in China were soaring. Chinese consumers bought so many iPhones that Cook publicly predicted China would eventually become the company's top market.

Yet problems emerged behind the scenes. Sometime in 2014 or early 2015, China's State Bureau of Surveying and Mapping told members of the Apple Maps team to make the Diaoyu Islands, the objects of a long-running territorial

dispute between China and Japan, appear large even when users zoomed out from them. Chinese regulators also threatened to withhold approval of the first Apple Watch, scheduled for release in 2015, if Apple didn't comply with the unusual request, according to internal documents.

Some members of the team back at Apple's headquarters in Cupertino, Calif., initially balked at the demand. But the Maps app had become a priority for Apple, so eventually the company complied. The Diaoyu Islands, when viewed in Apple Maps in mainland China, continue to appear on a larger scale than surrounding territories.

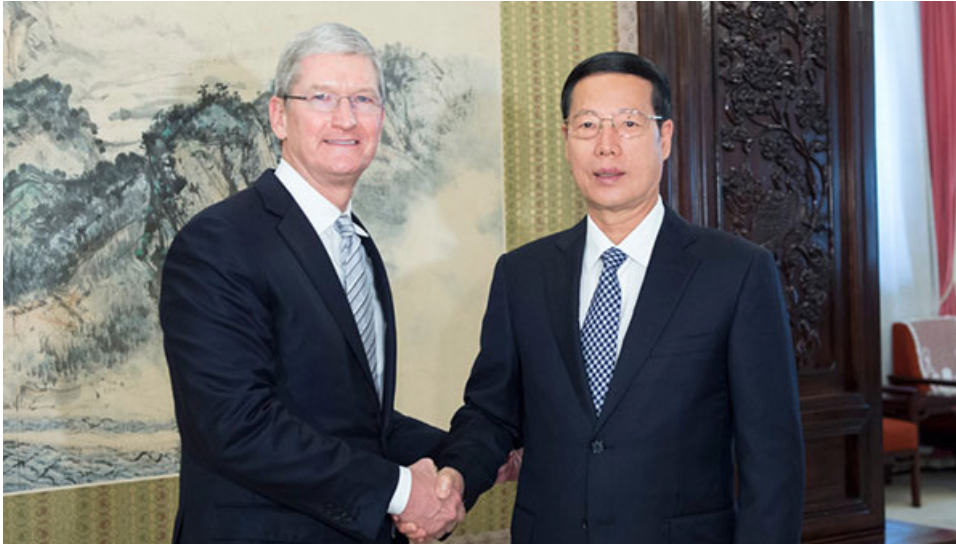
Conditions soured for Apple in 2016. In early April, the month before Cook signed the five-year agreement, Chinese regulators ordered Apple to shut down its iTunes Store for China—six months after it had launched—because the company didn't have the necessary content licenses. To obtain those licenses, Apple would have needed to operate the store jointly with a local Chinese company and censor its content. (The iTunes store never reopened.)

Later that month, China's State Encryption Management Bureau, which approves encryption technology used for Chinese citizens, blocked Apple's ability to use hardware security modules in its data centers to store Chinese customer encryption keys for Apple Pay, according to an internal document and three people familiar with the incident. That posed a threat to the service, which had launched in China two months earlier. Chinese regulators were concerned that the encryption method wasn't secure enough, one of the people said. (Apple later resolved the issue by bringing outside experts to meet with the authorities to convince them the tech was safe, this person said.)

Cook's Diplomacy

Internally, some Apple executives believed government officials were trying to send a message that Apple needed to better follow Chinese laws and stop operating its services out of compliance with local regulations. For example, the iTunes Store wasn't the only service Apple operated in a legal gray area. Apple also operated iCloud, its data storage and email service, and the App Store without the necessary local licenses and partners, according to internal documents.

To counter the barrage from regulators, Cook jumped into diplomacy mode. He flew to China three times that year to build goodwill with Chinese officials. After the Didi announcement, Cook signed the MOU on his first visit in May. He met with China's then-No. 7 official, ranking Vice Premier Zhang Gaoli, on his second visit three months later, according to internal documents, Chinese state media and two people familiar with the visits.



Cook with China's then-No. 7 official, Zhang Gaoli, August 2016. Photo: China state media

Cook's third visit, in October, with Premier Li yielded promising results. A year earlier, the Ministry of Industry and Information Technology, the country's primary tech regulator, had released draft legislation requiring all smartphone makers to make pre-installed apps deletable. The regulator wanted Apple to make iCloud a deletable app on the iPhone, according to internal documents and two people familiar with the episode. Apple initially lobbied the regulator to change the wording of the legislation, writing multiple letters to argue the new rules would hurt the Chinese user experience and lead to security vulnerabilities, one of the people said.

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Apple later sent Jackson, its head of government affairs, and Cook to lobby the regulators face-to-face against the proposed rules. Neither of them was successful, this person said. But after Apple informed the regulator that Cook planned to raise the issue with Premier Li in October, the regulators allegedly backed down and agreed to change the legislation specifically for Apple, according to the person and an internal Apple document that discussed the matter. Publicly, regulators reworded the proposed rules in a way that allowed Apple and other smartphone makers to continue offering certain apps integral to the "safe use" of smartphones without including the ability to delete them.

Cook's meetings with Chinese officials around this time also helped Apple win an exemption from authorities who had been asking it to provide source code for its mobile operating system, The Information previously **reported**.

Apple's reliance on Cook's charm, however, caused concern among some Apple executives in China. While his visits helped prevent serious damage to Apple's business and elicited positive public statements from Chinese officials about Apple's commitment to the country, they believed the company could be vulnerable if other senior executives or local China managers didn't also forge such relationships for moments when Cook wasn't available, one internal document said.

Sometimes, though, Cook's off-the-cuff remarks to Chinese officials created headaches for Apple's government affairs team. During his October visit, Cook dined with the Communist Party chief and the mayor of Shenzhen at a local Four Seasons hotel. He reportedly told them Apple would open an R&D center in the city, a key Chinese manufacturing hub, according to **Chinese media**. Apple's China team initially didn't want the existence of the facility broadly known because it wasn't going to be a large office, according to an internal document and two people familiar with the episode. Cook's accidental announcement sent his team scrambling to manage expectations with Shenzhen officials, who wanted more details about the center, and also Shanghai officials, who wanted their own Apple R&D facility. Apple, which had a separate economic investment agreement with the Shanghai government, announced an R&D center in Shanghai a few months later.

Other Roadblocks

Even after Apple signed the China agreement, executives still encountered roadblocks. In July 2016, Chinese authorities conducted an unusual audit of Apple Pay, including an onsite inspection of the service at Apple's China offices, internal documents show. Apple separately faced delays importing components from South Korea to China, as Chinese customs agents upped their inspections of cargo originating from South Korea in retaliation for that country's decision to install a U.S. missile-defense system, which Beijing saw as a threat, according to another document.

At the same time, Apple faced reputational problems in the local press after the Chinese Academy of Social Sciences, a government think tank, repeatedly gave the company an abysmal score for corporate social responsibility efforts in China. In October 2016, Apple ranked No. 31 among 100 top foreign companies for CSR, far below Samsung, ranked No. 1. On orders from executives in Cupertino, Apple managers met with the academy to persuade it to raise the score, but they were rebuffed, according to an Apple document. The academy criticized Apple's lack of disclosures about its environmental and philanthropic activities in China, its outdated Chinese website, its string of earlier negative publicity in China, and its lack of response to public inquiries about its local CSR efforts, according to the document, which didn't elaborate on the criticisms.

The following year, Apple began releasing an annual CSR report written in Chinese about its efforts in China and overhauled its local website to tout its achievements and environmental projects in the country. The initiatives worked: Apple's ranking rose to No. 12 in 2017 and has risen even higher, to No. 6, in recent years.

Throughout 2016, Chinese officials pressured Apple to hand over control of iCloud to a Chinese partner to comply with new telecom laws preventing foreign companies from operating their own cloud services. Sometime in the second half

of 2016, Apple executives met with Chinese regulators to propose building an Apple data center without a local partner, arguing that the rules didn't apply to Apple because its consumer cloud services differed from those of Amazon and Microsoft, whose data centers primarily served corporate customers. The regulator disagreed, Apple's internal documents said.

In response, Apple executives agreed to partner with Chinese companies in Guizhou and Inner Mongolia, locations where they believed Apple would have more influence with local authorities. Apple hoped the authorities could then lobby central government officials to accept compromises to the arrangements, according to internal documents and two people familiar with the episode. The strategy apparently worked: Apple, rather than its Chinese partners, controls the hardware security modules that store customer encryption keys required to unlock iCloud content in China, the company has said.

Telco 'Influence'

Apple also faced pressure from Chinese regulators to work more with state-owned companies. In the second half of 2016, the Ministry of Industry and Information Technology proposed that Apple partner with China Telecom, one of the country's telcos, to power its iCloud service in China. Shanghai officials, meanwhile, recommended Apple work with another telco, China Mobile, to operate the servers that would power its App Store in China. Apple executives, however, wanted to run these services on their own, and they suspected the companies had lobbied the various officials to propose the deals, the documents show.

"We believe China Telecom or other carriers have played an influence here," an Apple document said. China Mobile and China Telecom didn't respond to a request for comment. Apple has managed to avoid partnering with a local company to operate the App Store, meaning it's still in a legal gray zone.

The same regulators exerted pressure on Apple in other ways that benefited China's telcos, the documents and a person familiar with the episode said. The regulators challenged CallKit, an Apple feature that let app developers such as Tencent's WeChat integrate internet calling into the iPhone's Phone app. The ministry told Apple in October 2016 that before they could bless the feature, Apple would need to close a major loophole in its China App Store that made internet calling apps such as Microsoft-owned Skype available for iPhones in China without first obtaining regulatory approvals. The regulator told Apple it wouldn't approve the upcoming iPhone 7 models for use in China unless Apple shut down CallKit for Chinese apps, including WeChat, while waiting on a decision about the feature. Apple eventually complied, and it later removed Skype from its China App Store in 2017. But the regulator never approved CallKit in China.



Cook at the opening ceremony of the Fourth World Internet Conference in Wuzhen, 2017. Photo: AP

Navigating Relationships

Apple's relationships with Chinese officials require careful navigation, and the company has occasionally stumbled due to miscommunication between executives in Cupertino and in Beijing. Leading up to November 2016, Apple's China team accepted a personal invitation from the chief of the Cyberspace Administration of China to showcase Siri, Apple's voice-activated assistant, at the country's state-sponsored World Internet Conference, internal documents show.

But Apple executives in Cupertino later told the team to withdraw from the conference over concerns its participation might have an impact on the company's public image, according to the documents. The documents didn't elaborate on the concern, but critics have said one of the event's goals is to legitimize China's vision of a tightly controlled and censored internet. Apple's China team felt pressure to salvage the relationship with the CAC, which had become the country's most powerful technology regulator under Chinese President Xi Jinping, according to the document.

During a subsequent meeting, CAC officials told Apple managers they needed to be more proactive and better prepared for next year's conference. Apple obliged: Cook attended and gave a speech at the event in 2017.

Since then, Apple has fulfilled most of the promises of its 2016 agreement with Chinese officials. The company announced a deal before the end of that year with China's largest wind turbine maker, Xinjiang Goldwind Science and Technology, to co-develop renewable energy projects. In 2017, Apple announced more R&D centers and a deal to move iCloud operations to China. It also created an executive role to oversee its China business, signaling to Beijing

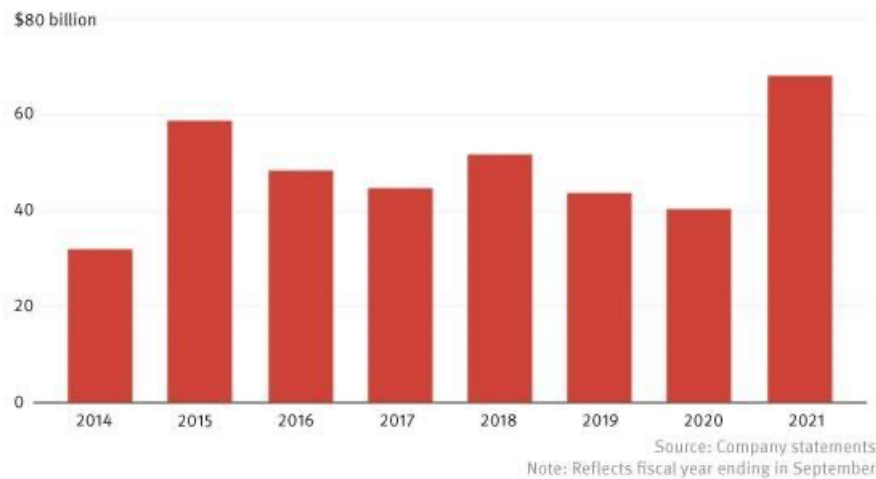
that the country was so important it would get its own representative. In 2018, Apple established a \$300 million clean energy fund with Chinese suppliers and established a research center with Tsinghua University. And since signing the MOU with China, Apple has opened 11 additional retail stores in mainland China and **increased cooperation** with Chinese manufacturers such as Luxshare Precision Industry, the first Chinese company to win a contract to assemble the iPhone.

Renewed Momentum

After two straight years of declining China sales due to nationalist movements to buy Chinese phone brands and supply chain constraints amid the Covid-19 pandemic, Apple this year regained momentum. The company's revenue from Greater China, which includes Hong Kong, Taiwan and Macau, rose to a record \$68 billion in the 12 months ending in September. China now represents nearly 19% of Apple's total sales, up from around 15% a year earlier. According to Counterpoint Research, Apple became the largest smartphone brand in China in October for the first time in six years. Apple has started opening new retail stores in China after a three-year pause.

Bounce Back

Apple's sales in China hit a record this year, helped by the collapse of Huawei's high-end phone sales



Nicole Peng, an analyst at Canalys, said Apple is one of the only international brands doing well in China right now. Apple's marketing and communications practices have improved in China over the past five years, she said. The company, for example, has adapted better to Chinese consumers by offering more discounts and has been more vocal about its philanthropic and charitable efforts.

"In terms of public relations, they are responding quite fast," she said.

Apple also has continued to comply with Chinese laws that have led to increased censorship of its App Store in areas

such as news, virtual private networking and LGBTQ-related apps, and the **withholding** of new privacy features for Chinese users. In late October, Apple said it would comply with a new Chinese **data security law**, requiring foreign companies to store more data about Chinese users in the country, where local law enforcement officials can potentially access it, according to an email sent to Chinese users that The Information reviewed. Microsoft's LinkedIn and Yahoo discontinued their Chinese operations around the time the law took effect.

Some of Apple's China initiatives have faced criticism in the U.S., reflecting the tightrope the company continues to walk. BuzzFeed earlier **reported** that Xinjiang Goldwind, which has partnered with Apple on wind farms, had been in talks to use suspected forced labor from the Xinjiang region, home to a Uyghur Muslim population that the U.S. says is the victim of genocide by the Chinese government. The Information, meanwhile, **reported that multiple Chinese manufacturers of Apple devices including Luxshare have participated in suspected Uyghur forced labor programs.**

Wayne Ma is a reporter covering U.S. tech in Asia, from Apple's supply chain to Facebook's and Google's operations in the region. He previously worked for The Wall Street Journal. He is based in Hong Kong and can be found on Twitter at [@waynema](#).

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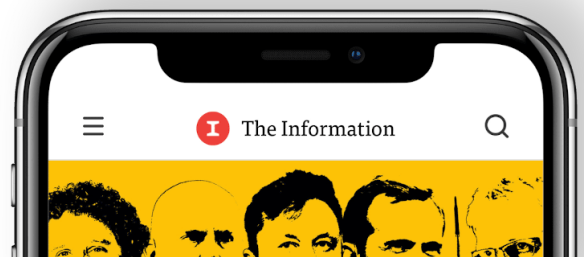
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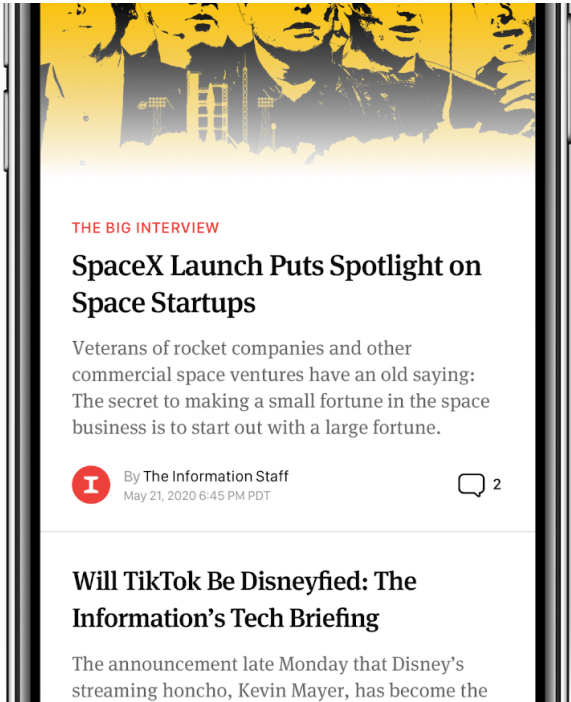
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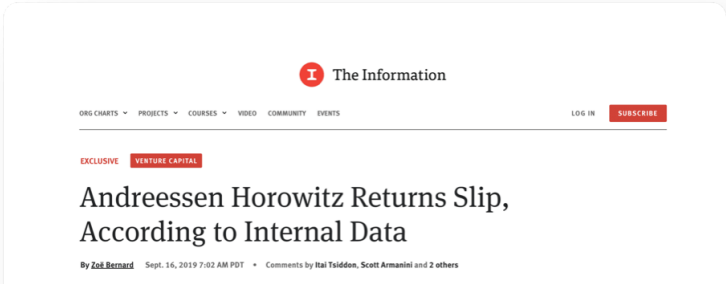


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The funds the firm raised in 2010 and 2011 showed a net internal rate of return of 16% and 12%, respectively, as of Sept. 30, 2018, according to an internal report on Andreessen Horowitz prepared by one of the firm's current limited partners and seen by The Information. During those years, Andreessen Horowitz's limited partners—the pension funds, university endowments and wealthy individuals who put money into its funds—could have done about as well investing in common stock market index funds.



Marc Andreessen, co-founder of Andreessen Horowitz.
Photo by Bloomberg

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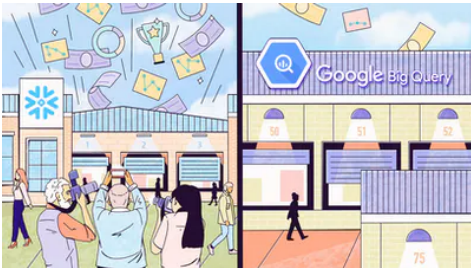
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